



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m., May 20, 2003. The following members were present:

Jody B. Olson
Susan K. Simmons
Dennis L. Johnson
Pamela I. Ahrens

Trustee J. Kirk Sullivan was absent and excused. The electronic projection of materials and documents discussed in the meeting was handled by Carol Peterson. Executive Director Alan H. Winkle, Deputy Attorney General Brad Goodsell, Financial Officer James Monroe, Chief Investment Officer Robert Maynard, and Management Assistant Joanne C. Ax were also in attendance. Other persons attending portions of the meeting were:

Rod MacKinnon
Bruce Reeder
Drew Black
Brian McGrath
Dennis Fitzpatrick
Casey Maslonka
Cody Barney
Eric Lindner
Geoffrey Lea
Charlie Brown
Matt Freeman
Geoff Bridges
Cecile McMonigle
Rhonda Yadon

Mountain Pacific Investment Advisors
Mountain Pacific Investment Advisors
DB Fitzpatrick & Co.
DB Fitzpatrick & Co.
DB Fitzpatrick & Co.
DB Fitzpatrick & Co.
DB Fitzpatrick & Co.
GMAC
GMAC
REAI
LBO
Milliman USA
PERSI
PERSI

Richelle Sugiyama
John R. Doner

PERSI
PERSI

OLD BUSINESS

Approval of the Minutes: By motion duly made by Trustee Johnson and seconded by Trustee Simmons, the Board unanimously approved the minutes of the April 22, 2003, regular meeting of the Retirement Board as submitted.

Monthly Portfolio Update Mr. Maynard discussed his investment report dated May 19, 2003, which he had updated from the one previously furnished to the Board. In the report and in his discussion, Mr. Maynard noted the following:

Since the last Board meeting, the end of the Iraq war and generally benign earnings reports and forecasts have driven the markets up substantially, despite continued indifferent economic news (particularly on the jobs front). The fund is up 4% since the last meeting, and has climbed back to slightly above even for the fiscal year to date.

All managers are either within their expected characteristics or have reasonable explanations for slight deviations. All managers are also performing as expected vs. their respective benchmarks.

The TIPS account and Idaho Mortgages, with their government bond character, have the best absolute performance, while international and small cap equities have the worst. Zesiger and Genesis have the best relative performance for the fiscal year to date, while Schroders and Scudder have the worst. Brandes has made a significant turnaround in the last month, and the Zesiger public portfolio has had truly spectacular performance.

The portfolio as a whole has, contrary to expectations, generally kept pace with the recent market turnaround, rather than lagging as was expected. It remains to be seen if this good performance will continue.

Mr. Maynard's report stated the current value of the fund as of May 19, 2003 was \$6,291,660,722. The fiscal year-to-date return percentage is negative 0.5% and the month-to-date return was a positive 2.1%.

While the TIPs portfolio continues to do well, Mr. Maynard again noted that the purpose for their inclusion in the portfolio is for asset allocation reasons as they allow us to carry more equities at a lower amount of risk. Our overall asset allocation is on target so no rebalancing is anticipated this month

Quarterly Mellon Report – Russell/Mellon Analytical Services had previously provided first quarter 2003 performance review reports to the Board. Mr. Maynard reviewed the report which compares the performance of the PERSI fund to other similar funds. The report noted that the PERSI fund has a much better risk/return tradeoff than the PERSI target benchmark, incurring less risk while earning a higher return for all extended time periods. The PERSI fund's overall asset allocation is 10% underweight domestic equity and 7% overweight international equity when compared to its target allocation. Mr. Maynard answered questions and explained various charts and graphs. He indicated some concern about the performance of MFS and Schroders and is continuing to closely monitor them.

Choice Plan Quarterly Report - A report from Mercer Investment Consulting provided details on how the funds offered to 401(k) participants performed during the first quarter of 2003. As of August 1, 2003, the plan assets invested in Vanguard Growth and Income Fund will convert from Investor-Class Shares to Admiral-Class Shares. At that time, the ING Small Cap Fund will be replaced with T. Rowe Price Small Cap Stock Fund.

Other Investment Business: Mr. Maynard said he and Trustee Simmons had attended the final consultant interviews conducted by the Endowment Fund Investment Board (EFIB). Ms. Simmons said it was a good learning experience as the candidates discussed what services they could provide. Advantages of larger firms and of smaller firms became evident in the three and a half hour presentation time. We may consider using the EFIB candidate information as PERSI begins the consultant search process in the future. Mr. Winkle will research the issue and provide a timeline to the Board.

Private Equity Real Estate – Mario Gianinni of Hamilton Lane reviewed the Alternative Asset Portfolio giving an update on activities in each fund. Because these investments generally distribute profits back to the investors during the quarters and draw on the PERSI commitment as needed, measuring the quarterly returns using the same methods as for other investments does not provide an accurate view of revenue gained from these endeavors. This program is a profitable allocation for PERSI.

Idaho Commercial Mortgage Report - Eric Lindner and Geoffrey Lea had provided a written report to the Board outlining the findings of the annual performance review of PERSI's Commercial Mortgage Program. The review included the current management, administration and relative performance of the program handled by D.B. Fitzpatrick & Co., Inc. of Boise. The process included interviews with borrowers, a quantitative overall portfolio review as well as a performance analysis of specific loans.

The report indicated that the administration, management and performance for calendar year 2002 equaled or exceeded the performance of similarly focused commercial real estate mortgage/whole loan origination and investment programs.

Dennis Fitzpatrick and staff then presented their annual report of the program covering long term investment objectives, scope of responsibility, asset growth and portfolio performance. Asset types and geographic location were also discussed. The Coeur d'Alene and Twin Falls areas of Idaho have shown the strongest signs of growth this year and DBF staff is meeting with borrowers in those areas. Answering a question from Trustee Johnson, Drew Black said he has received a lot of requests for mortgage refinancings and that the majority (about two-thirds) of the loan originations this year were refinancings of existing loans. Preliminary applications submitted this month are new loan requests.

Trustee Ahrens noted that the State of Idaho leases approximately two million square feet of office space and plans on approaching landlords about reduced rents or stabilization. All contracts are being reviewed and offices downsized as much as possible. Mr. Black said the federal government also has appropriations clauses in their lease agreements. Even so, DBF likes government tenants as they do not tend to move as much as other tenants.

Casey Maslonka discussed the Mortgage Backed Securities program and their strategy. Economist Brian McGrath discussed his outlook for Idaho, adding that the concentration of employment at HP and Micron in the tech industry may have an impact as he expects further layoffs there. On a positive note, he said there is strong growth in utility hookups. With interest rates low, families are buying homes rather than renting, so apartment vacancy rates are up. Trustee Ahrens said the state's revenue for the fiscal year is 9% and the legislature projected 13% and asked Mr. McGrath to comment on that. He replied that it is generally six months to a year after the economy starts to recover before tax collections benefit. He expects a difficult 12-18 months for the state. Asked whether the sales tax will have a noticeable impact on retail businesses, he said sales tax is generally considered an in-elastic tax.

Chairman Olson asked to have the fees charged by DBF for handling the loan servicing included in future audits to insure reasonableness. Mr. Maynard closed the presentation saying he has been tough on this program

and thanked Mr. Fitzpatrick for his responsiveness to the need for controls and monitoring. He also commended DBF on their responsiveness, noting that PERSI refers a lot of people to him and we have not received any complaints about Drew's handling of their requests.

Manager Comments: The Chairman invited managers who were present to comment on the markets and the economy. Rod MacKinnon said his firm remains cautiously optimistic. Their equity style is considered a growth at a reasonable price (GARP) style.

FISCAL:

Update and Expense Reports: Financial Officer James Monroe told the Board that the RFP for the annual audit services is closed and the intent to award notice has been given. It will be awarded to Deloitte & Touche. Responding to a question from Trustee Ahrens, he said it was awarded to the firm with the most points and this was not to the lowest bidder. Trustee Simmons served on the selection committee and said the technical points were important because of national public pension experience. Depth of knowledge and hours budgeted to the process were also critical factors. No board action is required on this issue.

He also reported that the project to convert employer reporting to an "as earned" format is nearly complete. Mr. Winkle complimented the fiscal staff on their monumental effort which provides more accurate data, brings the data in electronically and gets the funds invested quickly for our members.

Mr. Monroe reviewed the Administrative and Portfolio budget detail for the month ending April 30, 2003. While there will be several encumbrances relating to projects, spending has been contained and he expects to end the year under budget.

Quarterly Report – Senior Accountant Rhonda Yadon provided copies of the financial statements for the quarter ended March 30, 2003 and 2002. A lower 2003 "contributions receivable" balance when compared to 2002 reflect the new "as earned" reporting where funds reach PERSI sooner for investment. Before, employers were allowed to delay contribution payments until the 20th of the month following the time the funds were withheld from the employee's salary. Now they must be paid within 5 days. The payments come in more frequently, in smaller amounts and the voluntary contributions to the 401(k) are credited quickly for the members. A comparison of "other income" reflects less income from the 820 building which is not currently rented and from office space in the 607 building formerly rented to attorneys was shown in the report. A gain to the sick leave fund was also reported in the statement notes because of an equity investment change during March. The S&P 500 indexed investment was changed to a more diversified Russell 3000 indexed fund.

LEGAL

Proposed Rules: Mr. Goodsell had provided a memorandum and details of rules to increase contribution rates over a three year period (about 1% a year) beginning July 1, 2004, with subsequent increases on July 1, 2005 and July 1, 2006.

The proposed rules also include a technical amendment to the title in Rule 1, and an amendment to Rule 2 to reflect the new address of PERSI's Coeur d'Alene office. A new subsection is added to Rule 27 to clarify the rate applicable to certain employees (class E members) of Firemen's Retirement Fund (FRF) employers who are not considered public safety officers. Rule 114 is amended to clarify eligibility while the member is on a leave of absence occasioned by an approved worker's compensation claim. Rule 176 is amended to make it consistent with recent changes to Idaho Code 59-1325, requiring payment of contributions within five (5) days of each pay date. By motion duly made by Trustee Johnson, seconded by Trustee Simmons and unanimously approved, the Board adopted the proposed rules as set forth in IDAPA 59 Title 01 Chapter 03 Docket No. 59-0103-0302.

EXECUTIVE DIRECTOR

New Employer: By motion duly made by Trustee Johnson, seconded by Trustee Simmons and unanimously approved, the Board welcomed Bonner County as a new PERSI employer effective July 1, 2003. The County has 325 employees. The actuary determined that there are no entry costs for this employer to join PERSI.

Status Update: Mr. Winkle reviewed the summary of PERSI projects report that had previously been provided to the Board. The employer survey is about half completed and we expect to learn the results the second week of June. Focus groups are being assembled for testing the employee survey. It is expected to be mailed to the employees the first part of June with results back to PERSI in mid-July. Trustee Ahrens asked if the Board will see the questions before they are finalized and mailed to members. Mr. Winkle said if Trustees wish to see the questionnaire, we will provide it.

Some Trustees feel that timing of the survey is important because state employees will see a decrease in take home pay with the new fiscal year. While medical insurance premium increases are unrelated to PERSI, there was concern that overall benefit concerns might carry over into employee satisfaction and skew the PERSI service survey.

The RFP for Business Process Re-engineering (BPR) will close this week. Thirteen firms were represented at the bidder's conference. We are pleased that major players in the field appear interested. Call management software is on order and a T1 line with direct inward dialing instead of extensions will be installed soon.

Future Board Meetings

Mr. Winkle said there will be no regular Board meeting in June. Trustees discussed the plan to hold the July meeting in Pocatello, Idaho to provide an opportunity for members in southern Idaho to attend. After discussion, citing budget considerations, the Board chose to change the location of that meeting back to the Boise PERSI office.

Meetings scheduled for the remainder of the year:

Tuesday, July 22, 2003, 8:30 a.m., **Boise – PERSI office**

Tuesday, August 26, 2003, 8:30 a.m., Boise – PERSI

Tuesday, September 30, 2003, 8:30 a.m., Boise – PERSI

Tuesday, October 21, 2003, 8:30 a.m., Boise – PERSI

Tuesday, November 18, 2003, 8:30 a.m., Boise – PERSI

Tuesday, December 16 2003, 8:30 a.m., Boise – PERSI

Other Business

As a cost saving measure, PERSI is considering drastically reducing the number of annual reports printed each year. Post cards will be sent to the current mailing list advising them that electronic copies are available on our website. We will plan to print only enough copies for those requesting printed reports. There were no objections; Mr. Winkle said we will proceed with this process.

Adjournment: There being no further business before the Board, by motion duly made by Trustee Simmons, seconded by Trustee Johnson and unanimously approved, the meeting was adjourned at 11:00 a.m.

Jody B. Olson
Chairman

Alan H. Winkle
Executive Director